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Expand coverage without raising taxes

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ARE Californians taxed too much, or not enough?

Taxes are the central question of how to fund Gov. Arnold Schwarzenegger's massive $12 billion expansion of government-run health care with its 4 percent payroll tax, 4 percent hospital tax and 2 percent doctor tax. Ironically, Schwarzenegger lambasted Phil Angelides during last year's gubernatorial campaign for wanting to raise taxes by $7 billion to create a new government health care entitlement. Angelides argued mightily that his proposal amounted to fees, not taxes. But the governor called Angelides' "fee" a "tax," so a "tax" it was. Now that Schwarzenegger is proposing a government health plan that is $5 billion larger than Angelides' proposal, Schwarzenegger has decided to call his three new taxes "fees."

The reason the difference between a "tax" and a "fee" matters has to do with the required vote thresholds in the Legislature. Tax increases need a two-thirds vote for approval, while fees only need a simple majority. Republican legislators believe that these fees are really tax hikes and that a two-thirds majority vote should be required to approve them.

If a majority-vote "fee" increase is rammed through the Legislature with the help of Democrats, lawsuits will be filed to block the tax hikes to defend the rights of taxpayers and the two-thirds constitutional requirement.

Adding further difficulty is a recent federal court ruling that struck down a Maryland law aimed at forcing Wal-Mart to provide its employees with health care benefits equal to 8 percent of its payroll costs. The court held that Maryland's so-called "Fair Share Health Care Fund Act" violated federal benefits law. This ruling means Schwarzenegger's proposed 4 percent jobs tax for health care may be illegal under federal law.

In 2003, amidst soaring workers' compensation rates and rising taxes, California's business-tax climate ranked a dismal 43 among the 50 states, according the Tax Foundation. California's ranking improved to 38 of 50 in 2004 after Schwarzenegger signed workers' compensation reforms and rolled back Gray Davis' tripled car tax. Then California fell back to No. 42 in 2006, and declined again this year to 45.

More importantly, our western neighbors offer powerful incentives for California businesses to expand out of state, with Nevada's business-tax climate ranking fourth best in the nation, Oregon 10th, Washington 11th and Arizona 28th.

So, it would appear that California is overtaxed, especially in comparison with its neighbors. Simple economics dictates that investment dollars will avoid California.

What is the solution?

California has about three times the health-insurance mandates of Idaho, about double the national average. If California were to allow true competition, including out-of-state plans, costs would go down and choice would go up.

Another way to keep health care costs in check without sacrificing quality or raising taxes can be found in consumer-directed health plans. Enrollment in health savings accounts paired with high-deductible health insurance tripled in 2006. Compared with managed care plans, consumer-directed health plans reduce the annual cost per employee by about $1,000 while preserving patient choice. Unfortunately, California is one of only four states that does not allow this freedom of choice.

And that's a shame. Because there are many ways to increase Californians' access to health care without illegally increasing taxes by calling them fees.

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